

Corporate Governance Report

The Board of Rakon Limited (Rakon) is committed to conducting business in the right way and maintaining the highest standards of corporate behaviour and accountability. Rakon's Board regularly reviews the corporate governance framework and supports best practice reporting.

The Board considers that its corporate governance framework is in line with the NZX Corporate Governance Code released in 2017 (NZSX Code), except as stated within this report. In this regard, there are several items which Rakon is progressing to ensure compliance with the NZX Code. The information in this report is current as at the date of release of this Annual Report and has been approved by the Board of Rakon.

The key corporate governance documents referred to in this report are available on Rakon's website at <http://www.rakon.com/corporate/investor/ir-gov>

Rakon is listed on the NZX's Main Board and is subject to regulatory control and monitoring by both the NZX and the Financial Markets Authority (FMA).

Principle 1 – Code of Ethical Behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

Rakon is committed to ensuring the highest ethical standards are maintained by Directors, staff and suppliers in all activities conducted by or in the interests of the Company.

These standards, as well as guiding principles, are set out in Rakon's Business Code of Conduct which is available on the Company's website and was last reviewed in August 2015. The Code will be reviewed again in FY2019. Additional guidance for Directors is provided in the Board Charter which was last reviewed in March 2018.

The Code of Conduct requires Directors and employees to promptly report material breaches of the Code. A separate Whistle Blowing Policy will be developed by the Board in FY2019.

Rakon has in place processes to enable training for all new and existing employees to ensure awareness and understanding of the Business Code of Conduct.

Rakon has a Financial Product Trading Policy to mitigate the risk of insider trading in Rakon securities by employees and Directors. A copy of this is available on Rakon's website. This was last reviewed and updated in March 2018. Additional trading restrictions apply to Restricted Persons including Directors and certain employees. Details of Directors' share dealings are on page 57 of the 2018 Annual Report.

Principle 2 – Board Composition and Performance

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

The Rakon Board has ultimate responsibility for the strategic direction of Rakon and oversight of the management of Rakon, with the aim of increasing shareholder value and ensuring the obligations of the Company are met.

Rakon's Board operates under a written Charter which sets out the structure of the Board; the procedures for the nomination, resignation and removal of Directors; outlines the responsibilities and roles of the Chairman and Directors; and identifies procedures to ensure that the Board meets regularly, conducts its meetings in an efficient and effective manner and that each Director is fully empowered to perform his or her duties as a Director of the Company and to fully participate in meetings of the Board.

Day to day management of Rakon is undertaken by the executive teams under the leadership of the Managing Director, through a set of delegated authorities that are reviewed regularly.

In discharging their duties, Directors have direct access to and may rely upon Rakon's senior management and external advisers. Directors have the right, with the approval of the Chairman or by resolution of the Board, to seek independent legal or financial advice at the expense of Rakon for the proper performance of their duties.

Board Composition and Appointment

The number of elected Directors and the procedure for their retirement and re-election at Annual Shareholders' Meetings are set out in the Constitution of the Company.

While the nomination process for new Director appointments is the responsibility of the whole Board, the Nomination Committee is responsible for identifying and recommending candidates, taking into account such factors as it deems appropriate, including tenure, capability, skill sets, experience, diversity, qualifications, judgement and the ability to work with other Directors.

At each Annual Shareholders' Meeting, one-third of the current Directors retire by rotation and are eligible for re-election. Any Directors appointed since the previous annual meeting must also retire and are eligible for election. In accordance with the Constitution, the Board has resolved that the Managing Director will not be required to retire by rotation.

The Board supports the separation of the roles of Chairman and CEO and the appointment of an independent chairman.

In compliance with the new NZX Code, Rakon will provide written agreements to existing and new Directors in FY2019.

The Board currently comprises of six Directors: an independent Chairman, three independent Directors, one non-executive Director and the Managing Director. In order for a director to be independent, the Board has determined that he or she must not be an executive of Rakon and must have no disqualifying relationships. The Board follows the guidelines of the NZX Listing Rules.

Information on each Director is available on the Rakon website and on page 56 of the 2018 Shareholder Information which accompanies the 2018 Annual Report. Director's interests are disclosed on page 57 of the 2018 Annual Report.

The Company encourages all Directors to undertake appropriate training and education so that they may best perform their duties. This includes attending presentations on changes in governance, legal and regulatory frameworks; attending technical and professional development courses; and attending presentations from industry experts and key advisers. In addition, updates are provided to the Board on relevant industry and Company issues. A number of Rakon's Directors are members of the Institute of Directors.

The Board regularly considers individual and collective performance, together with the skill sets, training and development and succession planning required to govern the business. An evaluation of Board performance will be undertaken in FY2019.

Diversity

Rakon recognises the value of diversity of thinking and skills. This can arise through a number of different characteristics including but not limited to the following; gender, ethnic background, religion, age, marital status, culture, disability, economic background, education, language, physical appearance and sexual orientation. Different backgrounds, communication styles, life-skills and interpersonal skills are also considered of value in building diverse teams.

In FY2019, Rakon will look to develop a formal Diversity and Inclusion Policy and will set objectives for promoting diversity and inclusion within the Company.

As at 31 March 2018, females represented 14% (FY17: 14%) of Directors and officers of the Company. Officers are defined as being the Chief Executive Officer and specific direct reports of the CEO having key functional responsibility.

	31 March 2018	31 March 2017
Directors		
Females	1	1
Males	5	6
Officers		
Females	1	1
Males	7	6

Board Meetings and Attendance

The Board meets as often as it deems appropriate, including sessions to review the performance of the business versus plans and to consider the strategic direction of Rakon and its forward-looking business plans. Video and/or phone conferences are also used as required.

The table below sets out Director attendance at Board and committee meetings during FY2018. In total, there were thirteen Board meetings, two Audit and Risk Management Committee meetings, three Remuneration Committee meetings and two Nomination Committee meetings.

	Board Meetings	Audit & Risk Management Committee	Remuneration Committee	Nomination Committee
Total number of meetings held	13	2	3	2
Bryan Mogridge	13	2	3	2
Bruce Irvine	12	2	-	-
Keith Oliver	13	-	3	2
Brent Robinson	13	-	-	-
Warren Robinson ¹	5	1	-	-
Lorraine Witten	11	-	3	2
Roger Yao: Alternate director appointment for Yin Tang Tseng ²	12	-	-	-

¹ Ceased as Director of Rakon Limited 17 August 2017.

² Roger Yao was appointed by the Board as alternate director for Yin Tang (Tony) Tseng in June 2017. He attends Rakon Board meetings and provides support for Tony, who continues to be actively engaged in the activities of the Board. Tony is the current Chairman of Siward Crystal Technology Co. Limited, a substantial shareholder (16.6%) in Rakon.

Principle 3 – Committees

The Board should use committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility.

The Board has delegated a number of its responsibilities to committees to assist in the execution of the Board's responsibilities.

The Board committees review and analyse policies and strategies that are within their terms of reference. They examine proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior Board authority to do so.

The committees meet as required and have terms of reference (Charters), which are approved and reviewed by the Board. Copies of committee Charters are on the Rakon website.

Minutes of each committee meeting are forwarded to all members of the Board, who are all entitled to attend any committee meeting. Each committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

The membership and performance of each committee is to be evaluated as part of the Board performance evaluation, to be undertaken in FY2019.

The current committees of the Board are the Audit and Risk Management Committee (ARMC), the Remuneration Committee and the Nomination Committee.

From time to time, special purpose committees may be formed to review and monitor specific projects with senior management.

In the case of a takeover offer, Rakon will form an Independent Takeover Committee to oversee disclosure and response, and engage expert legal and financial advisors to provide advice on procedure.

Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for overseeing the risk management (including treasury and financing policies), insurance, accounting and audit activities of Rakon; and for reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of external auditors, reviewing the consolidated financial statements and making recommendations on financial and accounting policies.

The Committee must be comprised solely of Directors of Rakon, have a minimum of three members, have a majority of independent Directors and have at least one Director with an accounting or financial background. The makeup of the current members of this committee complies with this recommendation.

Members as at 31 March 2018 were Bruce Irvine (Chair), Bryan Mogridge, and Lorraine Witten. The committee Chair is not the Chair of the Board.

Management may attend meetings only at the invitation of the Committee and the Committee routinely has committee-only time with the external auditors without management present.

Remuneration Committee

The Remuneration Committee is responsible for overseeing management succession planning, establishing employee incentive schemes, reviewing and approving the compensation arrangements for the executive Director and senior management, and recommending to the full Board the compensation of Directors. Management may attend meetings only at the invitation of the Committee.

Members as at 31 March 2018 were Bryan Mogridge (Chair), Keith Oliver, and Lorraine Witten.

Nomination Committee

The Nomination Committee is responsible for ensuring the Board is composed of Directors who contribute to the successful management of the Group, ensuring formal review of the performance of the Board, individual Directors and the Board's committees, and ensuring that effective induction and training programmes are in place for new and existing Directors. Management may attend meetings only at the invitation of the Committee.

The members of the Nomination Committee as at 31 March 2018 were Bryan Mogridge (Chair), Keith Oliver and Lorraine Witten.

Principle 4 – Reporting and Disclosure

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

Rakon's Directors are committed to keeping investors and the market informed of all material information about the Company and its performance, in a timely manner. Rakon has a Continuous Disclosure Policy to ensure that material information is identified, reported, assessed and, where required, disclosed to the market in a timely manner. This was adopted by the Board in March 2018.

In addition to all information required by law, Rakon also seeks to provide sufficient meaningful information to ensure stakeholders and investors are well informed, including financial and non-financial information.

Financial Information

Rakon's business management teams are responsible for implementing and maintaining appropriate accounting and financial reporting principles, policies, and internal controls designed to ensure compliance with accounting standards and applicable laws and regulations.

The Board's Audit and Risk Management committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness, balance and timeliness of financial statements. It reviews Rakon's full and half year financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit. All matters required to be addressed and for which the committee has responsibility were addressed during the reporting period.

For the financial year ended 31 March 2018, the Directors believe that proper accounting records have been kept that enable the determination of the Company's financial position with reasonable accuracy, and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013. The Chief Executive Officer and Chief Financial Officer have confirmed in writing to the Board that Rakon's external financial reports present a true and fair view in all material aspects.

Rakon's full and half year financial statements are available on the Company's website.

Non-financial information

Rakon discusses its strategic objectives and its progress against these in the Chair and CEO's commentary in shareholder reports.

Rakon is committed to ensuring the protection of the world's environment and natural resources. As part of this commitment, Rakon has achieved ISO14001 certification at the following sites: Auckland – New Zealand, Pont Sainte Marie – France and Bangalore – India.

Across its global facilities, Rakon is integrating an Environmental Management System (EMS) to deliver continuous improvement in this area.

Details of Rakon's commitment to a clean green environment and human rights can be viewed on the Company's website at <http://www.rakon.com/corporate/about/corp-policies>. This includes the Company's policy on the restriction of hazardous substances (RoHS/RoHS2); and Rakon's positions on Conflict Minerals and Slavery and Human Trafficking.

The Company also invests in a number of social responsibility initiatives that support staff, customers and the communities in which it operates.

Principle 5 – Remuneration

The remuneration of Directors and executives should be transparent, fair and reasonable.

Remuneration of Directors and senior executives is the key responsibility of the Remuneration Committee. External advice is sought on a regular basis to ensure that remuneration is benchmarked to the market for senior management, Director and Board positions. While Rakon has established guidelines in place in regard to remuneration, it will look to develop a formal Remuneration Policy in FY2019.

Director Remuneration

The total remuneration available for Directors is fixed by shareholders. The Board determines the level of remuneration paid to Directors from the approved collective pool. Directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in the course of performing their duties.

The annual fee pool limit is \$360,000 and was approved by shareholders at the Annual Shareholders' Meeting in September 2012. There have been no increases in the individual amounts paid for Board roles since 2008. The only increases have been to the annual pool to allow for the appointment of an increased number of Directors.

Any proposed increases in non-executive Director fees and remuneration will be put to shareholders for approval. If independent advice is sought by the Board, it will be disclosed to shareholders as part of the approval process.

Board Role	Approved Remuneration
Chairman	\$120,000
Non-executive Director	\$60,000
Executive Director	-

Details of individual Directors' remuneration are detailed on page 56 of the 2018 Annual Report.

Executive Remuneration

In general, executive remuneration comprises a fixed base salary and an at-risk short-term incentive payable annually. Some executives also receive fringe benefits and/or a long term incentive in the form of a share plan that has been made available to participating executives and senior managers. At-risk incentives are paid against targets agreed with executives at the commencement of the period and are based on financial measures including earnings targets and progress against objectives related to the strategic plan and other personal objectives.

Executives' remuneration and entitlements are detailed under Employees Remuneration information on page 58 of the 2018 Annual Report.

CEO Remuneration

The review and approval of the CEO's remuneration is the responsibility of the Board.

External advice is sought on the remuneration of the CEO and was last obtained in 2016.

The CEO's remuneration comprises a fixed base salary, fringe benefits, and an at-risk short-term incentive payable annually. At-risk incentives are paid against targets agreed with the CEO, and are based on financial measures including earnings targets and progress against objectives related to the strategic plan and other personal objectives.

	Salary	Benefits	Subtotal	At Risk Incentive		Total Remuneration
				STI ¹	% STI against maximum	
FY2018	\$619,358	\$33,044	\$652,402	\$73,500	40%	\$725,902
FY2017	\$656,053	\$32,639	\$688,692	-	0%	\$688,692

¹ STI (short term incentive) is based on payments made in the period but relates to assessment of performance in the prior period.

Principle 6 – Risk Management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

The Board has overall responsibility for the Company's system of risk management and internal control. The Board delegates day to date management of the risk to the Chief Executive Officer. In addition, the Audit and Risk Management Committee provides an additional and more specialised oversight of Company risks in addition to the oversight provided by the Board. The Audit and Risk Management Committee's Charter details the specific responsibilities of the Committee in regard to risk assurance.

The executive team and senior management are required to regularly identify the major risks affecting the business and develop structures, practices and processes to manage and monitor these risks. Each half year the Chief Financial Officer also reports on other risks including fraud, and on internal control and insurances.

The Board is satisfied that major risks are reviewed and also intends to implement a more detailed risk management framework in FY2019. Rakon maintains insurance policies that it considers adequate to meet its insurable risks.

More details of Rakon's financial risk management are available on pages 25 to 29 of the 2018 Annual Report.

Health and Safety

The Rakon Board recognises that effective management of health and safety is essential for the operation of a successful business, and its intent is to prevent harm and promote wellbeing for employees, contractors and customers. The Board is responsible for ensuring that the systems used to identify and manage health and safety risks are fit for purpose, being effectively implemented, regularly reviewed and continuously improved.

Rakon has a number of operational subsidiary businesses in New Zealand, France and the UK, each of which is responsible for managing its own health and safety framework. Each business prepares monthly reports which are submitted to Rakon's General Manager People & Capability, and a monthly report to the Board provides an update on Key Performance Indicators, activities and key events. The Board is satisfied that there is a comprehensive health and safety system and processes in place.

Incident rates is a key measure reported to the Board for the operational subsidiary businesses. The Company has achieved a low level of Lost Time Injuries with only one incurred in the year to 31 March 2018.

Rakon is currently formalising a Health & Safety Policy to ensure consistency of behaviour, processes and expectations across all subsidiary businesses.

Principle 7 – Auditors

The Board should ensure the quality and independence of the external audit process.

The Rakon Board is committed to ensuring audit independence, both in fact and appearance, so that Rakon's external financial reporting is viewed as being highly objective and without bias.

The Audit and Risk Management Committee (ARMC) reviews the quality and cost of the audit undertaken by the Company's external auditors and provides a formal channel of communication between the Board, senior management and external auditors.

The Committee meets regularly with the external auditor to approve its terms of engagement, audit partner rotation (at least every five years) and audit fee, and to review and provide feedback in respect of the annual audit plan. A comprehensive review and formal assessment of the independence and effectiveness of the external auditor is undertaken periodically. The Committee routinely has time with the external auditor without management present. The ARMC also assesses the auditor's independence on an annual basis.

For the financial year ended 31 March 2018, PricewaterhouseCoopers (PwC) was the external auditor for Rakon Limited. PwC was re-appointed under the Companies Act 1993 at the 2017 Annual Meeting. The last audit partner rotation was in 2016.

All audit work at Rakon is fully separated from non-audit services, to ensure that appropriate independence is maintained. Other services provided by PwC in FY2018 were the review of the Callaghan Innovation Growth Grant claim and other non-audit related services that involved the provision of advice rather than recommendations. These were deemed to have no effect on the independence or objectivity of the auditor in relation to audit work. The amount of fees paid to PwC for audit and non-audit work are identified on page 14 of the 2018 Annual Report. An External Auditor Independence Policy will be prepared in FY2019 to formally set out the services that may or may not be performed by the external auditor.

PwC has provided the ARMC with written confirmation that, in its view, it was able to operate independently during the year.

PwC attends the Annual Shareholders' Meeting, and the lead audit partner is available to answer questions from shareholders at that meeting. PwC attended the 2017 Annual Shareholders' Meeting.

Rakon has a number of internal controls overseen by the ARMC and/or the Board. These include controls for computerised information system, cyber risk and information security, business continuity management, insurance, health and safety, conflicts of interest, and prevention and identification of fraud. The Company does not have an internal audit function.

Principle 8 – Shareholder Rights and Relations

The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

The Board is committed to open and regular dialogue and engagement with shareholders. Rakon seeks to ensure that investors understand its activities by communicating effectively with them and giving them access to clear and balanced information.

Rakon has a calendar of communications and events for shareholders, including but not limited to:

- Annual and Interim Reports
- Market announcements
- Annual Shareholders' Meeting
- Ad hoc investor presentations to institutional investors and retail brokers
- Easy access to information through the Rakon website www.rakon.com
- Access to management and the Board via a dedicated email address investors@rakon.com.

Shareholders are actively encouraged to attend the Annual Shareholders' Meeting and may raise matters for discussion at this event, and may vote on major decisions that affect Rakon. Voting is by poll, upholding the 'one share, one vote' philosophy.

In accordance with the Companies Act 1993, Rakon's Constitution and the NZX Main Board Listing Rules, Rakon refers major decisions that may change the nature of the Company to shareholders for approval.

All shareholders are given the option to elect to receive electronic communications from the Company.

In addition to shareholders, Rakon has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community, the New Zealand Shareholders' Association, regulators, staff, customers and suppliers.

Exercise of disciplinary powers

No disciplinary action has been taken by either the NZX or the FMA against the Company during the financial year ended 31 March 2018.